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DE RUEHLJ #0602/01 2621428

ZNY CCCCC ZZH

R 191428Z SEP 07

FM AMEMBASSY LJUBLJANA

TO RUEHC/SECSTATE WASHDC 6134

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

RUEHMO/AMEMBASSY MOSCOW 0251

RUEHIT/AMCONSUL ISTANBUL 0021

RUCPDOC/DEPT OF COMMERCE WASHDC

RHMCSUU/DEPT OF ENERGY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 02 LJUBLJANA 000602

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EUR/NCE FOR TYEAGER, DOC/ITA FOR CRUSNAK, EUR/EEB FOR
RGARVERICK

E.O. 12958: DECL: 09/17/2017

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SUBJECT: SLOVENE BUSINESS LEADER ASSESSES CHALLENGES OF
HIGH-PROFILE U.S. AND RUSSIAN JOINT VENTURE PROJECTS

REF: A. LJUBLJANA 416

[¶](#)B. LJUBLJANA 113

Classified By: CDA Maryruth Coleman for reasons 1.4 (b) and (d)

Summary

[¶](#)1. (C) At a lunch hosted by CDA September 12, Viktor Baraga, chairman of the supervisory boards of Slovenian energy company Petrol and gaming company Hit, discussed the problems these two companies have experienced in advancing joint venture projects with Russian and U.S. partners. He stated that Petrol's joint venture with Lukoil has stalled because in the year since Lukoil made an offer for Petrol shares, the stock value has more than doubled and the Russians are unwilling to pay the higher price. On Hit's proposed entertainment center deal with Harrah's in Western Slovenia, Baraga warned that the project is entering politically choppy waters. Given local concerns about the mega project and resistance from many Hit employees, he predicted that government officials and parliamentarians -- even those privately supporting the deal -- will avoid the issue until after the 2008 parliamentary elections. Baraga said Harrah's should identify key regional leaders and engage them soon and often in dialogue to overcome local opposition and dispel the myth that the U.S. conglomerate will eat up Hit as soon as it has a foot in the door. END SUMMARY.

Lukoil Underestimates Petrol

[¶](#)2. (C) During the lunch, Baraga discussed the overall energy picture in Slovenia and focused in particular on the status of Petrol's 2006 joint venture agreement with Russian oil company Lukoil. He stated that the deal has stalled due to Lukoil's arrogance and unrealistic expectations that it could swoop into small Slovenia and buy Petrol cheaply. Instead, in the year since Lukoil made an offer for Petrol shares, the company's stock price has more than doubled, from 425 to 955 euros. Baraga reported that Lukoil had previously bought a Serbian oil company and had lost a lot of money in that venture and now is unwilling to pay a big price for Petrol. (Comment: CDA had heard from an MFA contact that a senior EU official had told the Slovenian Government to back away from the Lukoil deal given the EU's larger concern about Russian control of European energy companies. Baraga said he had not heard of any such EU intervention. End Comment.)

¶3. According to Baraga, the deal between Petrol and Lukoil is not dead yet, but the two companies are drifting farther and farther apart as Petrol's stock price continues to rise and Petrol looks elsewhere for strategic energy partners. Petrol's aim has always been to become a regional player by diversifying its energy portfolio and increasing its vertical integration. In recent months, the Slovenian food, energy and tourism conglomerate Istrabenz has been actively buying up available shares of Petrol, with an eye toward buying a controlling stake in the company. Baraga acknowledged the advantages for Petrol of an association with Istrabenz since it used to own retail gas stations and is currently active in the electricity generation sector. On September 14, in a surprise turning of the tables, Petrol announced that it would make a bid to buy a controlling share of Istrabenz.

Hit/Harrah's Deal Reaches Critical Juncture

¶4. (C) Turning to the 1 billion USD Hit/Harrah's proposed entertainment center project in the Nova Gorica region of Western Slovenia, Baraga suggested that the deal is facing difficulties because of a combination of Slovenia's regional focus, inherent conservatism, and political expediency on the part of Slovenian officials. He said that in private, Prime Minister Janez Jansa, Finance Minister Andrej Bajuk, Hit President Niko Trost and Nova Gorica Mayor Mirko Brulc all support the project. (Comment. At a presentation by a Hit management board member, an audience member stated that Minister Bajuk does not genuinely support the joint venture. End Comment.) But Baraga revealed that many Hit employees feel threatened by the Harrah's deal and worry that they could lose their jobs. He explained that with parliamentary

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elections coming up in fall of 2008, politicians are unwilling to express public support for the project for fear of being perceived to be "rolling over dead and selling everything for peanuts to foreigners."

¶5. (C) In his efforts to move the project forward, Baraga called an all-hands Hit board meeting for Monday, September ¶17. He has invited all stakeholders, including union representatives, Mayor Brulc, Economic State Secretary Andrej Sircelj, representatives of the government investment funds KAD and SOD, and academic experts on gaming, to come and express their views once and for all. Baraga hopes that this transparency will force people away from self-promoting rhetoric and to see the value of the project for the Slovenian economy as a whole. When asked by CDA what Harrah's next steps should be, he recommended that Harrah's identify the most influential regional people and "show them the end of the tunnel" (i.e., show them that jobs and revenue will be gained, not lost). (Note. A Harrah's team just arrived in Slovenia for discussions with Hit and local officials in Nova Gorica. End Note.) Also, mayors and parliamentarians need to be reminded that Hit will own the controlling share -- 51 percent -- of the joint venture.

¶6. (SBU) The first major hurdle for the project will be in late September, when the parliament returns from summer recess and will debate the proposed revisions to Slovenia's gaming legislation (ref A). Currently, the New Slovenia Party (NSi) and the Slovenian People's Party (SLS) have publicly declared their opposition to the legislative changes. Baraga was cautiously optimistic that the law will probably squeak through parliament even without the support of NSi and SLS, but he said the vote will be close and could go either way.

¶7. (C) Viktor Baraga is a successful businessman in his own right, having founded a pharmaceutical company. He told CDA outright that he attained his lofty positions on the Petrol and Hit boards because he is a childhood friend of PM

Jansa,s. Both grew up in the Dolenska region of the country, an area that is often viewed as backward by other Slovenians. It seemed evident that Baraga,s loyalty and similar resentment of being underestimated by other Slovenians had forged a strong bond with Jansa. Baraga traveled to Australia as a citizen of Yugoslavia, spent ten years there, and came back to independent Slovenia with dual citizenship. Since 1992 he has served has Australia,s honorary consul and is now the most senior honorary consul in Slovenia.

Comment

¶8. (C) While both projects could bring needed foreign direct investment to Slovenia, the progress of both are in serious doubt. Economic experts such as European Bank for Reconstruction and Development director Francois Lecavalier (ref B) have urged the GoS to speed up the privatization process and open up to foreign investment, but economic conservatism and concern about being dominated by foreign interests have constrained the Slovene government, business sector and the public at large from supporting such opportunities. END COMMENT.

COLEMAN